Poverty measurement integrating wealth

Stephan Häni, Martina Guggisberg, Swiss Federal Statistical Office (FSO)

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How to define poverty?

«People are considered to be poor if they do not have the financial means to buy goods and services that are necessary for a socially integrated life.» (FSO 2018)

- Statistical reality: poverty = income poverty
  → only income from assets is considered, but not assets themselves
- Poverty rate (especially of the elderly) is overestimated
- Objective: integrate wealth into poverty measurement
Two basic concepts

Two-dimensional approach:
Wealth = income substitute
→ Are individuals able to cover their basic needs with assets for a certain time in case of a sudden loss of income?

One-dimensional approach:
Wealth = income complement
→ Are individuals able to cover their basic needs when a percentage of assets is added to household income (continuous asset depletion)
What we have done so far

• CH-SILC: module collecting monetary value of assets & debts
• Experimental analysis based on the two-dimensional approach: Poverty measurement integrating wealth | FSO - Experimental statistics
• Broad consultation and discussion with external partners
• New demands due to National Monitoring on Poverty
• New efforts to make national tax data accessible for statistical purposes
Main demands and challenges

- Poverty rates for pensioners must take wealth into account.
- Two-dimensional approach seems fitting for working age population, but for pensioners, one-dimensional approach seems more appropriate.
- One-dimensional approach is further investigated by an external research institute commissioned by the Federal Social Insurance Office (FSIO).
- Challenge: communicate and integrate the two concepts for the whole population.
One-dimensional approach: options

General idea: Wealth is continuously depleted over a long period of time

• Calculation of a depletion rate
  → single rate or according to life expectancy

• Definition of wealth components
  → with or without main residence

• Estimation of future development of wealth
  → single interest rate or different rates depending on asset type
One-dimensional approach: models

- **Model 1**: Net wealth excluding main residence, depletion rate varies according to life expectancy, one interest rate for all asset types

- **Model 2**: Net wealth excluding main residence, depletion rate varies according to life expectancy, *interest rate varies depending on asset types*

- **Model 3**: Net wealth including main residence, depletion rate varies according to life expectancy, one interest rate for all asset types

- **Model 4**: Net wealth excluding main residence, *single depletion rate for all ages at 5%*, one interest rate for all asset types
One-dimensional approach: first insights

- Models are quite robust because depletion rate is rather low over all
- Specific interest rate by asset type has almost no impact
- Main residence has a large impact
- Life expectancy should be taken into account

Poverty rates including wealth

- Model 1: baseline
- Model 2: asset-specific interest rates
- Model 3: including main residence
- Model 4: constant depletion rate at 5%

Source: SILC 2020, experimental data on wealth, chart adapted from Demografik

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Thank you for your attention!

Contact information:

• Federal Statistical Office  
  Stephan.Haeni@bfs.admin.ch, Martina.Guggisberg@bfs.admin.ch

• National Monitoring on Poverty  
  Anna.Koukal@bsv.admin.ch